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SUBJECT: ZAMBIAN BUDGET TRANSPARENT -- EXECUTION IMPROVING

REF: A. SECSTATE 1923
[1](#)B. LUSAKA 749

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SUMMARY

[1](#)1. (SBU) The Zambian government (GRZ) publishes its budget in draft and final form annually, as required by law. The budget is available for purchase from government printers, and is analyzed by civil society organizations (CSOs) and international accounting firms during the budget debate process. Budget execution is less transparent, as the GRZ relies on a system of cash releases to numerous bank accounts to manage expenditures at the national, provincial and local level. The GRZ publishes quarterly disbursement reports and an end-of-year financial report, and the Auditor General's Office (AGO) publishes annual audits, although these are usually delayed a year or more. Line ministries also, on occasion, publish disbursement reports in the press. In 2010, the GRZ is implementing a new Integrated Financial Management Information System (IFMIS) -- now functioning at the Ministry of Finance and National Planning (MFNP) -- and has begun implementing a Treasury Single Account (TSA) system, which will help the GRZ to better manage its finances and make budget execution much more transparent. Given Zambia's transparent budget development process and the government's progress in improving budget execution, Embassy considers it unnecessary to obtain a waiver of the requirements under Section 7088(c) to allow continued financial assistance to the GRZ in FY 2010. End Summary.

BUDGET TRANSPARENT -- EXECUTION IMPROVING

[1](#)2. (SBU) The following information is in response to Ref A request for information regarding Zambia's budget transparency to determine its eligibility whether it needs waiver of the requirements under Section 7088(c)(1) of the Department of State, Foreign Operations, and Related Programs Appropriations Act (SFOAA), 2010. and if so, whether it should be eligible for a waiver:

a. The GRZ is expected to receive USG assistance under the FY10 SFOAA.

b. As required by law, the GRZ publishes its budget in its draft form as presented to the Parliament and in a final version as approved by the Parliament. The budget is published in its entirety, with over 1,600 pages of line items for expenditures and an income statement that summarizes tax revenue, government borrowing, and foreign assistance revenues included in the Minister of Finance's

annual budget speech (Ref B). The budget is available for purchase from the government printer for about USD 50, making it prohibitively expensive for average citizens. It has also been available free of charge on the internet. The budget is analyzed by CSOs and by international accounting firms and the results of those analyses are typically reported in the press and available online free of charge. Parliamentary debate and the vote on the budget is made public on the Parliament's website and in the press. The GRZ sometimes relies on supplementary budgets that are passed during the fiscal year. Those supplementary budgets generally are similar to continuing resolutions in the United States, and cover the beginning of a fiscal (and calendar) year when an annual budget has not yet been passed. Details about supplementary budgets are generally less transparent than the annual budget process. A 2009 constitutional amendment (discussed in paragraph d.) that shifts the budget cycle to align it to the fiscal year should make such supplementary budgets less common in the future.

c. The GRZ publishes quarterly disbursement reports and a financial report at the end of each fiscal year. In addition, line ministries on occasion publish data on budget transfers to provincial, district and local "spending agencies." Actual expenditures are generally lower than those projected in the approved budget, as the GRZ executes its budget on a cash rather than accrual basis. As such, the budget is executed based on cash on hand at a given moment. The Auditor General's Office (AGO) publishes annual government audits, although they are generally delayed by more than a year given the current lack of an integrated financial reporting system. The AGO also audits parastatals such as the national electric utility, Zesco.

d. Since the 2009 review, the GRZ has shifted its budget

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cycle to align it to the fiscal year, which starts on January 1. In previous years, the draft budget was presented after the start of the fiscal (and calendar) year. A 2009 constitutional amendment requires the budget cycle to adhere more closely to the fiscal year. As such, the draft budget was made public on October 9 and passed before Parliament adjourned in December, allowing for a full 12 months of budget execution. The new budget cycle should also reduce the need to pass supplementary budgets to cover government operations in the first part of a fiscal year -- a common practice in years past.

13. (SBU) The GRZ's budget process is relatively transparent. Zambia's score of 48 out of 100 on the International Budget Partnership's 2008 Open Budget Index means it tied for 34th out of 80 countries, putting Zambia ahead of other countries in the region including Namibia, Tanzania, and Rwanda, none of which required waivers for Section 7088(c) in FY09. Budget execution has been less transparent, but measures have recently been taken or are underway which will improve execution transparency. Its current finance and accounting system relies on cash releases which are deposited in more than one thousand bank accounts controlled by various ministries at the national, provincial, and local level. As such, once the treasury releases money to line ministries, the GRZ is unable to report accurately its budget execution during the fiscal year. At the end of the year, Ministries are required to sweep remaining cash back to a central account, at which point the GRZ can publish its end of year financial report.

IMPROVING FINANCIAL MANAGEMENT AND BUDGET EXECUTION

14. (SBU) The GRZ is implementing several projects to improve its financial management capabilities. It is developing a donor-supported Public Expenditure and Financial Accounting (PEMFA) framework, a key component of which is implementation of an Integrated Financial Management Information System

(IFMIS). The GRZ launched its IFMIS at the Ministry of Finance and National Planning (MFNP) on January 4 with plans to roll it out to line ministries during the year. The IFMIS should help with budget execution and allow the GRZ to shift to an accrual system of accounting for revenue and expenditures. However, a number of line ministries currently lack the expertise and technical infrastructure to take full advantage of the new system.

15. (SBU) The U.S. Treasury Office of Technical Assistance (OTA) continues to guide and support the GRZ's efforts to implement centralized treasury functions through a Treasury Single Account (TSA). The TSA system, which will reduce the number of government bank accounts from more than one thousand to less than 50, will allow the GRZ to manage and forecast its finances better while saving on bank transaction and foreign exchange costs. In 2010, the MFNP will implement a pilot project on some payments and transfers within budget execution to test the TSA framework. A December 2009 IMF Staff Report for Zambia's Article IV and PRGF Review noted Zambia's significant progress in implementing public financial management reform, and highlighted TSA and IFMIS as integral parts of a successful public financial management system.

OTHER USG ACTIONS

16. (SBU) In addition to our ongoing cooperation between Treasury and the MFNP to implement STA, Embassy will continue to engage the GRZ to promote improved fiscal transparency through various avenues. We will encourage the GRZ to commit to acquiring the requisite ICT infrastructure and training ministry personnel so that IFMIS can be successfully rolled out to line ministries on schedule. We will explain the importance of fiscal transparency, not only for the GRZ to maintain legitimacy in the eyes of Zambians, but to continue to maintain eligibility for USG assistance, especially MCA. We will urge the GRZ to respond meaningfully to the findings of the annual AGO reports, and reinforce the importance of IFMIS and TSA in the AGO's ability to produce audits in a timely manner. Finally, we will continue to press forward with Embassy's ongoing anti-corruption work plan, recognizing that GRZ governance reform will have ancillary benefits to fiscal transparency and accountability.

COMMENT

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17. (SBU) Embassy considers it unnecessary to obtain a waiver of the requirements under Section 7088(c) to allow continued financial assistance to the GRZ in FY2010. If the Department determines otherwise, Embassy recommends a waiver be granted to Zambia to allow continued USG assistance. Zambia's budget development process is, relative to its peers, adequately transparent, and it scores better on the open budget index than many of its neighbors that are not subject to the waiver process. It publishes draft revenues and expenditures far in advance of budget adoption, and budget debates are open, both on the floor of the National Assembly and among civil society and private sector groups. Zambia's ability to manage its budget execution is hampered by a lack of technical and technological capacity. As a result, actual revenue and expenditures rarely match those projected in the approved annual budget. However, the GRZ's commitment to TSA and IFMIS shows that it is working to improve its public financial management capacity.

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